

Resources and Energy

CALFED Bay-Delta Program

Effective management of our water resources is essential to the future of California's economy and environment. The recently released public review draft of the California Water Plan outlines a new vision for California's water resources. The Water Plan recognizes our progress and provides a framework to build upon past accomplishments. It identifies many important water management strategies throughout the state that must be developed, maintained, and financed to meet the needs of Californians into the 21st century. The Secretary for Resources has been directed to work with the Secretaries for Food and Agriculture, Environmental Protection, and the Chair of the California Bay-Delta Authority to develop a long-term strategy for stable water resource investment funding. This long-term funding strategy will ensure that we continue to improve water supply reliability, protect water quality, and restore our ecosystems to support California's needs.

The CALFED Bay-Delta Program continues to play an important role in meeting California's future water needs. CALFED must be a part of the long-term water resource investment strategy for the state. Consistent with the commitment in the Governor's Budget, a three-point plan has been developed that will allow the CALFED Program to move forward and focus on addressing the highest priority issues associated with the conflicts in the Delta:

Independent Review—Consistent with the recommendations of the California Performance Review (CPR), the May Revision calls for an independent program and fiscal review of the CALFED Program to ensure accountability, highlight accomplishments, determine program status, and guide adjustments to the Program. The May Revision proposes to increase the Resources Agency budget by \$300,000 for purposes of contracting to support this review.

Program Priorities—Re-focus the efforts of the California Bay-Delta Authority and the other CALFED state agencies on solving conflicts associated with Delta water supply, water quality, levee stability, and the environment. Program priorities will be reinforced in a ten-year action plan as described below.

Financing—The CALFED Program needs a credible budget for the coming year and it needs a clear plan for the next ten years. The Governor is calling for the development of a ten-year action plan, to be developed in coordination with stakeholders and our federal partners. This action plan must focus on solving the highest priority Delta issues, link future water user payments to specific program actions

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that improve water supply reliability, balance statewide actions with regional water management, and include funding from the state, federal, and local levels consistent with the beneficiaries-pay principle. This plan will include payments from water users to the Ecosystem Restoration Program and other programs in proportion to the direct benefits derived.

While the ten-year action plan is being developed, it is essential to have a credible budget for the coming year. This budget must reflect contributions from water users. The May Revision requests an increase of up to \$30 million in reimbursement authority in the budget of the Department of Fish and Game to accommodate user contributions which may be necessary to further the recovery of at-risk native fish.

The federal government is California's partner in the implementation of the CALFED Program. Working with the California Bay-Delta Authority, the Governor plans to request an additional \$40 million in the federal fiscal year 2006 federal budget for the CALFED Program, for a total request of \$100 million.

A major benefit of the CALFED Program has been a reduction in conflict and an increase in certainty regarding program implementation and balance. Over the next two years, water user and federal contributions to support the Program will be focused on actions that support the existing Conservation Agreement as described in the CALFED Record of Decision.

Related Activities—CALFED programs must be further integrated into our resource management efforts. To further this integration, the Governor is directing the CALFED implementing agencies to work diligently on related efforts such as:

- Implementation of the Lower Yuba River Accord to improve environmental conditions for native fish species and provide the first long-term Environmental Water Account asset as directed in Proposition 50.
- Negotiation of partnerships south of the Delta, including development of long-term EWA assets, in order to produce integrated improvements for water supply reliability, water quality, and ecosystem health.
- Legacy investment of bond funds to ensure continuing measurable benefits for, and recovery of, at-risk native fish species, and creative assistance for regions as they implement integrated regional water management.

Frontier Transmission Line Project

The May Revision proposes an increase of \$2.5 million Energy Resources Programs Account for California's participation in the Frontier Transmission Line Project.

In April 2005, the governors of California, Nevada, Utah, and Wyoming signed an agreement to create a four-state partnership to develop a transmission line originating in Wyoming with terminal connections in the other three states. The agreement specified that each state would contribute initial funding to support the Coordinating Committee and hire the necessary technical and legal consultants

to begin work on the project and bring it to a point where developer(s) will take over and fund the remaining feasibility work. In the long-run, the new line will provide Northern and Southern California with additional power to meet its future energy needs.

Tidelands Oil Revenues

California receives a share of the revenues that result from the sale of oil recovered from state tidelands. The major site of recovery is Long Beach, where the state, the City of Long Beach, and a private oil company have partnered to recover oil in an environmentally safe manner. One issue that has arisen in relation to this activity is the question of how to pay for the future costs of abandoning the oil field. These costs, which will likely include the removal of several man-made islands off the coast of Long Beach, are expected to be several hundred million dollars. In order to prepare for this cost, the City of Long Beach, which manages the field, began to set aside about \$2 million per month in an Abandonment Fund. Although the state challenged this practice, and requested that the \$83 million already set aside be returned to it, the California Court of Appeal ruled that the City's action is permissible under state law. As a result, the state's Tidelands Oil revenues will be \$47.3 million lower in the current year than anticipated in the 2004 Budget Act. In 2005-06, the City will set aside \$4 million per month, which will cause the state's Tidelands Oil revenues to fall by \$48 million. Since these revenues would otherwise have gone to the General Fund, the City's action will result in a two-year loss of General Fund revenue totalling \$95.3 million.

Paterno Settlement

A 1986 levee break in Yuba County flooded 7,000 acres of land in the communities of Linda and Olivehurst. Residents and businesses filed suit against the Department of Water Resources, which was found responsible for the break by the California Court of Appeal even though it did not build the levee and was not responsible for its maintenance. Settlement negotiations led to an agreement that the state would pay \$464 million in three segments: \$11 million for damages to the Peach Tree Mall; \$25 million for damages to the tenants of the Peach Tree Mall; and \$428 million for damages to approximately 3,000 individuals. The plaintiffs have agreed to sell their claim for the latter amount for a lump sum to Merrill-Lynch. The first year's payment, of \$67 million, will be made during 2005-06.

Enhancing Fire Fighting Capability

After the extensive wildfires in Southern California during 2003, the Blue Ribbon Fire Commission evaluated California's ability to respond to wildfires, and recommended options for improvement. One of the highest priority actions recommended by the Commission is the replacement of 155 obsolete fire engines. The Governor's Budget included \$10.8 million to enable the Department of Forestry and Fire Protection to begin this effort by funding up to 40 fire engines. This funding will continue in future years, with a goal of eventually replacing all outmoded fire engines and ancillary fire fighting

vehicles. In order to accelerate this process, the May Revision proposes to spend \$5 million more to replace an additional 19 engines, thereby enhancing the Department's ability to respond quickly to wildfire threats. In a related action to improve California's fire protection, the May Revision restores a \$6.7 million unallocated reduction in the Department's budget, thereby assuring the maximum number of fire fighters will be available during the 2005-06 fire season.

Carl Moyer Program

The May Revision proposes an augmentation of \$12.5 million Air Pollution Control Fund for the Carl Moyer Program, which provides incentive grants to reduce emissions from heavy-duty diesel-powered vehicles and equipment. The Carl Moyer Program assists projects that produce emission reductions from diesel sources such as on-road vehicles, agricultural pumps, forklifts, marine vessels, off-road equipment, and locomotives. Including the \$86 million proposed in the Governor's Budget, a total of \$98.5 million of state funding will be available for Carl Moyer grants in 2005-06. This funding demonstrates the Administration's commitment to reducing air pollution and ensuring the state meets air quality standards.